State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THAD LEVAR
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT.
Governor
GREG BELL
Lieutenant Governor

Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Douglas Wheelwright, Utility Analyst

DATE: March15, 2011

RE: PacifiCorp dividend declaration

I. ISSUE

In a letter dated February 1, 2011, PacifiCorp (Company) announced that its board of directors had declared a dividend amounting to $275 million payable February 28, 2011 to its sole common shareholder, PPW Holdings LLC, a wholly owned subsidiary of MidAmerican Energy Holdings Company (MEHC). PacifiCorp last paid a dividend in March 2006. Since that time the Company was formally acquired by MEHC. Subsequent to this acquisition, MEHC and PacifiCorp have indicated that PacifiCorp was not expected to pay dividends in the near future. As of December 2010, the Company was not expected to pay a dividend in 2011.

Pursuant to Utah Code Annotated 54-4-27, the Company must notify the Commission of the dividend within five days of its declaration. The Commission has 30 days from the dividend declaration date to investigate whether the payment of such dividend would result in impairment of the capital or to the utility's service to the public, and if it finds that such impairment will or may occur, the Commission may order that the dividend not be paid.

The Division of Public Utilities (Division) has investigated the effects of the dividend on the capital and cash flows of the Company using the latest financial information available, the annual financial statements through December 31, 2009 and the quarterly financial report as of September 30, 2010 and reviewed the Company's bond rating though the various bond rating agencies. The Company also provided information pursuant to a data request submitted by the Division.

II. RECOMMENDATION

Based upon the following analysis, the Division finds no indication that the capital and operations of PacifiCorp will be impaired pursuant to UCA 54-4-27. Therefore the Division recommends that the Commission take no action.

III. ANALYSIS

In approaching this assignment, the Division understands the terms "impaired" and "impairment" in the statute to mean that (1) the payment of the dividend will result in actions being taken against the Company by creditors, rating agencies, or others due to a reduction in the value of the capital, or the violation of loan covenants, or other agreements; (2) the payment of the dividend would result in a reduced ability of the Company to provide service through a lack the working capital or other financial capacity to continue its operations in the same manner it would if the dividend were not paid.

Exhibit 1 sets forth financial results for the fiscal years ended March 31, 2004 through 2006 and for the fiscal years ended December 31, 2007 through 2009. The Division also sets forth the interim nine months financial statements dated September 30, 2010.

Revenues have grown at an annual rate of 5.96 percent,[1] from about $3.2 billion in 2004 to $4.46 billion in 2009. Energy costs grew 6.67 percent annually over the 2004 to 2009 period and amounted to nearly $1.68 billion in 2009. However, energy costs declined about $280 million between 2008 and 2009, and based upon the nine months ended September 2010, it appears that energy costs in 2010 will be somewhat lower in 2010 than in 2009. Total operating expenses grew at an annual rate of 4.92 percent annually. Earnings from operations grew from approximately $620 million to $1.06 billion over the 2004 to 2009 time period, for a 9.84 percent growth rate. Annualizing the September 2010 results suggest that earnings from operations are running about equal in 2010 to 2009. Over the 2004 to 2009 time period, interest expense grew from about $237 million to $394 million, for a 9.27 percent growth rate. However, the 2010 interest expense appears to be running at about $260 million annually. The Company's net income has grown steadily from $248 million in 2004 to $550 million in 2009, for a 14.85 percent growth rate. Net income in 2010 appears likely to come in somewhat higher than in 2009 or about $589 million on an annualized basis.

Looking at the balance sheet information on pages 3 and 4 of Exhibit 1 indicates that the cash and equivalent balances have fluctuated widely between $59 million and $228 million. The average balance has been about $130 million. Total current assets have risen from $756 million in 2004 to $1.57 billion in 2009. The September 2010 balance of current assets was $1.58 billion,

[1] Annual growth rates have taken into account the change of the fiscal year-ends from March to December.

nearly the same as the 2009 year-end balance. Current liabilities balances have fluctuated over the 2004 to 2009 time period, but overall have been roughly flat. In 2004 the current liabilities balance was $1.07 billion; in 2009 the balance was $1.01 billion.

Net plant and equipment grew from $9.04 billion to $15.54 billion over the 2004 to 2009 period. The net plant and equipment balance stood at $16.15 billion as of September 2010. Other assets changed relatively little over the 2004 to 2009 time period, averaging about $1.90 billion. Total assets grew at an 8.80 percent annual rate over the 2004 to 2009 time period, ending at just under $19.0 billion in 2009. As of September 30, 2010, total assets amounted to about $19.8 billion.

Long-term debt also grew steadily from $3.52 billion in 2004 to $6.40 billion in 2009 (excluding the current portion). Other long-term assets have generally been flat. Deferred income taxes (which represents a positive cash flow item, at least in the short run and probably longer) has increased from just under $1.60 billion in 2004 to nearly $3.15 billion as of September 2010. Common equity increased from $3.28 billion in 2004 to $6.69 billion in 2009, and stood at $7.15 billion in September 2010. The growth in common equity was facilitated by equity contributions from MEHC totaling around $1 billion since the 2006 acquisition. It was also supported by the growth in net income and the lack of dividend payments since March of 2006.

Reviewing the financial ratios on page 7 of 7 of Exhibit 1, many of these financial measures improved over the time period considered. For example, the current ratio improved from 0.70 in 2004 to 1.55 in 2009. Long-term solvency ratios generally increased (a good thing) over the 2004 to 2009 time period. Among the profitability ratios, return on assets improved since the acquisition by MEHC; however, returns on total capital and, more importantly, on equity have not shown any clear improvement. The level of return on equity has consistently been one or more percentage points below the Company's authorized returns. Asset utilization ratios have generally declined which suggests that in recent years the Company has not been doing as well as in the past in generating revenues (and profits) from its expanding asset base. Whether this is due to the Company's current build cycle, or some systemic negative in the Company, or both is not clear from the data. On the positive side, the Company's bond rating recently was raised from an "A-minus" rating to a straight "A" rating.

As indicated on Exhibit 1 page 5, PacifiCorp is currently incurring capital expenditures at over a $1.5 billion annual rate compared to about $700 to $1,000 million in 2004 to 2007. Cash from operations (primarily net income plus depreciation plus deferred income taxes) has been running at about 60 percent of capital expenditures since 2007. This has required that the Company obtain funding from the debt markets as well as the receipt of the previously mentioned equity contributions from MEHC.

Exhibit 2 sets forth a forecast of PacifiCorp's financial statements based upon assumptions made by the Division that seemed reasonable in light of historical results. Based upon these assumptions, it appears that there should be no significant affect on the Company's financial health due to the payment of the currently announced dividend. Indeed, it appears that the

Company could start a program of dividend payments and maintain at least the current level of profitability and capital structure.

IV. CONCLUSION

To date MEHC appears to have kept to its promises to make significant capital expenditures and to maintain an equity capital structure at or above the Acquisition Commitments.[2] The Company has grown significantly over the past few years and has made some improvements in its balance sheet and increased its bond rating a notch. On the negative side, profitability as measured by returns on equity and total capital have not improved significantly. The Company does appear, at this time, to be able to make the proposed dividend payment and perhaps resume a regular dividend payment program without impairing its operations.

[2] Acquisition Commitment 18 indicates the expectation that PacifiCorp's equity percentage be kept above a 44 percent minimum. Standard & Poor's indicated in a Research Update on August 8, 2006 related to the $350 million debt issuance that it expects PacifiCorp/MEHC to manage PacifiCorp's debt and equity in a manner "sufficient to maintain roughly a 50-50 capital structure."